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Financial Statements

of the Massachusetts Port Authority for the years ended June 30, 1999 with summarized financial information for the year ended June 30,1998

Massport Statistics

The Annual Report for the fiscal year ending June 30, 1999 (fiscal year 1999) of the Massachusetts Port Authority (the "Authority"), dated January 10, 2000 is presented. The information contained therein is intended to be accurate as of its date; however, such information is subject to change without notice and no implication shall be created that there has been no change in the affairs of the Authority since the date thereof. Except as set forth in the Continuing Disclosure Agreement dated as of August 1, 1997, between the Authority and State Street Bank and Trust Company, the Authority has not undertaken and does not expect to provide additional information or continuing disclosure.

For further information, including a copy of the Continuing Disclosure Agreement, please contact
Leslie A. Kirwan, Director of Administration and Finance and Secretary-Treasurer
Massachusetts Port Authority
One Harborside Drive, Suite 200S
East Boston, Massachusetts 02128-2909
Telephone: (617) 428-2800.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Members of the Massachusetts Port Authority:

In our opinion, the accompanying balance sheet and the related statements of income, changes in fund equity and cash flows present fairly, in all material respects, the financial position of the Massachusetts Port Authority (a public instrumentality of The Commonwealth of Massachusetts) at June 30, 1999 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information has been derived from the Authority's 1998 financial statements; and in our report dated September 8, 1998, we expressed an unqualified opinion on those financial statements. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP

September 10, 1999

FINANCIAL STATEMENTS

BALANCE SHEETS

June 30, 1999 with comparative totals for June 30, 1998
(in thousands)

	1999			1998
ASSETS	Port Authority Operations	PFC Program	Combined	Combined
Cash and cash equivalents (Notes A and C)	$ 29,912	$ —	$ 29,912	$ 13,210
Investments (Notes A and C)	23,552	—	23,552	18,608
Accounts receivable, net of allowance for doubtful accounts of $13,145 and $11,920 in 1999 and 1998, respectively	24,231	840	25,071	31,975
Accounts receivable – grants (Note A)	1,939	—	1,939	1,839
Prepayments and other assets, net	19,894	2,527	22,421	37,976
Assets whose use is limited, including cash and cash equivalents of $64,091 and $35,789 in 1999 and 1998, respectively (Notes A, C and E)	377,132	294,468	671,600	395,201
Investment in facilities (Notes A, D and H):				
Completed facilities	1,722,623	84,889	1,807,512	1,576,033
Less accumulated depreciation	(785,053)	(4,973)	(790,026)	(727,828)
	937,570	79,916	1,017,486	848,205
Construction in progress	201,153	69,360	270,513	306,421
Net investment in facilities	1,138,723	149,276	1,287,999	1,154,626
Total assets	$1,615,383	$ 447,111	$2,062,494	$1,653,435
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable and accrued expenses	47,750	3,857	51,607	49,612
Accrued compensated absences (Note A)	12,179	—	12,179	11,000
Accrued interest payable	22,507	569	23,076	18,625
Funded debt (Note F)	829,515	251,578	1,081,093	734,533
Deferred income (Note A)	16,393	—	16,393	18,392
Total liabilities	928,344	256,004	1,184,348	832,162
Contingent liabilities and commitments (Notes H, J & K)				
Fund equity (Notes A and B):				
Accumulated fund equity	551,084	191,107	742,191	686,243
Contributed capital, grants-in-aid of construction	135,955	—	135,955	135,030
Total fund equity	[illegible]	[illegible]	[illegible]	[illegible]

Total fund equity	[illegible]	[illegible]	[illegible]	[illegible]
Total liabilities and fund equity	$1,615,383	$ 447,111	$2,062,494	$1,653,435

The accompanying notes are an integral part of the financial statements.

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STATEMENTS OF INCOME

for the year ended June 30, 1999 with comparative totals for the year ended June 30, 1998
(in thousands)

	1999			1998
	Port Authority Operations	PFC Program	Combined	Combined
Operating revenues (Note B):				
Tolls, fees and sales of services	$ 170,839	$ —	$ 170,839	$ 158,007
Rentals (Note K)	67,992	—	67,992	66,840
Concessions (Note K)	46,461	—	46,461	43,654
Other	10,209	—	10,209	9,463
Total operating revenues	295,501	—	295,501	277,964
Operating expenses (Note B):				
Operations and maintenance	132,756	—	132,756	114,197
Administration	54,457	—	54,457	49,889
Insurance (Note A)	4,234	—	4,234	2,414
Pension costs (Note G)	1,533	—	1,533	2,588
Payments in lieu of taxes (Note I)	13,465	—	13,465	12,062
Provision for uncollectible accounts	1,255	—	1,255	815
Total operating expenses	207,700	—	207,700	181,965
Depreciation and amortization, including $8,417 and $8,192 in 1999 and 1998, respectively, on assets acquired with contributed capital, grants-in-aid of construction (Notes A and D)	61,466	4,206	65,672	60,406
Income/(loss) from operations	26,335	(4,206)	22,129	35,593
Gain/(loss) on sales of assets	(98)	—	(98)	577
PFC revenue (Notes A, B and E)	—	35,327	35,327	33,874
Financial income and expense:				
Income on investments (Note A)	17,910	3,021	20,931	18,808
Interest expense (Note A)	(30,189)	(569)	(30,758)	(33,701)
Income before extraordinary item	13,958	33,573	47,531	55,151
Extraordinary item:				
Termination of interest rate swap (Note F)	—	—	—	(6,087)
Net income	$ 13,958	$ 33,573	$ 47,531	$ 49,064

The accompanying notes are an integral part of the financial statements.

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STATEMENTS OF CHANGES IN FUND EQUITY

for the years ended June 30, 1999 and 1998
(in thousands)

	Accumulated Fund Equity	PFC Program	Contributed Capital, Grants-in-Aid of Construction	Total Fund Equity
Balance, June 30, 1997	$ 508,687	$ 120,300	$ 127,316	$ 756,303
Net income	11,830	37,234	—	49,064
Contributed capital, grants-in-aid of construction (Note A)	—	—	15,906	15,906
Transfer of depreciation to contributed capital	8,192	—	(8,192)	—
Balance, June 30, 1998	528,709	157,534	135,030	821,273
Net income	13,958	33,573	—	47,531
Contributed capital, grants-in-aid of construction (Note A)	—	—	9,342	9,342
Transfer of depreciation to contributed capital	8,417	—	(8,417)	—
Balance, June 30, 1999	$ 551,084	$ 191,107	$ 135,955	$ 878,146

The accompanying notes are an integral part of the financial statements.

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STATEMENTS OF CASH FLOWS

for the years ended June 30, 1999 and 1998
(in thousands)

	1999	1998
Cash flows from operating activities:		
Cash received from customers	$ 296,922	$ 283,932
Cash payments:		
To vendors for goods and services	(103,010)	(98,746)
To employees for services	(74,881)	(68,851)
Payments in lieu of taxes	(13,465)	(12,062)
Net cash provided by operating activities	105,566	104,273
Cash flows from capital and related financing activities:		
Grants-in-aid of construction	9,520	14,277
Acquisition and construction of capital assets	(192,811)	(203,573)
Proceeds from sale of bonds	405,345	537,515
Proceeds from sale of equipment	78	718
Principal paid on refunded debt	—	(303,195)
Principal paid on funded debt	(54,080)	(64,620)
Interest paid on funded debt	(37,610)	(42,303)
Termination of interest rate swap	—	(6,087)
Proceeds from passenger facility charges	35,370	35,137
Net cash provided by/(used for) capital and related financing activities	165,812	(32,131)
Cash flows from investing activities:		
Purchases of investments	(3,494,847)	(4,445,041)
Proceeds from sale and maturities of investments	3,241,805	4,338,935
Interest earned on investments	26,668	22,542
Net cash used in investing activities	(226,374)	(83,564)
Net increase/(decrease) in cash and cash equivalents	45,004	(11,422)
Cash and cash equivalents, beginning of year	48,999	60,421
Cash and cash equivalents, end of year	$ 94,003	$ 48,999

	1999	1998
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 47,531	$ 49,064

Less: Income on investments	(20,931)	(18,808)
Proceeds from passenger facility charges	(35,327)	(33,874)
(Gain)/loss on sale of equipment	98	(577)
Add: Interest expense	30,758	33,701
Loss on termination of swap agreement	—	6,087
	22,129	35,593
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation and amortization	65,672	60,406
Provision for uncollectible accounts	1,255	815
Changes in assets and liabilities:		
Increase in accounts receivable	5,606	(10,486)
Decrease in prepayments and other assets	13,873	26,318
Decrease in accounts payable and accrued expenses	(2,149)	(23,315)
Increase in accrued compensated absences	1,179	388
Decrease in accrued pension cost	—	(640)
Increase/(decrease) in deferred income	(1,999)	15,194
Total adjustments	83,437	68,680
Net cash provided by operating activities	$ 105,566	$ 104,273

The accompanying notes are an integral part of the financial statements.

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FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

The Massachusetts Port Authority (the Authority) is a public instrumentality created by an act of the Legislature (the Enabling Act) of the Commonwealth of Massachusetts (the Commonwealth), effective June 21, 1956. The Authority controls, operates and manages Boston-Logan International Airport (Logan Airport), Hanscom Field, Maurice J. Tobin Memorial Bridge (Tobin Bridge) and other facilities in the Port of Boston. The Authority has no stockholders or equity holders. The provisions of the Enabling Act and the 1978 Trust Agreement (the Trust Agreement), as amended, between the Authority and State Street Bank and Trust Company, as Trustee, and the PFC Revenue Bond Trust Agreement dated May 6, 1999, as amended, (the "PFC Trust Agreement"), between the Authority and the Bank of New York, as Trustee, govern the disposition of cash revenues to the various funds established under the Trust Agreement and the PFC Trust Agreement, and restrict the use of such revenues credited to the various funds.

A. Summary of Significant Accounting Policies:

These financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted governmental accounting principles.

The Governmental Accounting Standards Board (GASB) has recently issued a statement titled "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," which may significantly change the accounting and financial reporting of the Authority in future years. Management is currently assessing the potential impact of this statement on its financial reporting presentation.

Beginning on July 1, 1995, the Authority elected to apply all Government Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) pronouncements issued before November 30, 1989, under the provisions of GASB Statement No. 20.

Assets Whose Use Is Limited

The balance sheet caption, "assets whose use is limited," represents restricted or trusteed assets under the Trust Agreement and the PFC Trust Agreement that are earmarked to fund certain activities of the Authority such as construction of new facilities and debt service.

Cash and Cash Equivalents

The Authority considers all highly liquid investments, (including assets whose use is limited), with an original maturity of 30 days or less when purchased, to be cash equivalents.

Investments

Investments in U.S. Government securities are recorded at amortized cost plus accrued interest, which approximates market value. Investments in repurchase agreements are recorded at cost plus accrued interest, which also approximates market value.

Self-Insurance

The Authority, as mandated by the Trust Agreement, maintains a self-insurance account within the operating fund. The Authority is self-insured for certain major catastrophic risks and worker's compensation claims, but maintains insurance coverage for claims in excess of established limits. Investments used to fund self-insurance claims are included within "assets whose use is limited" in the accompanying balance sheets (see Notes C and J).

Investment in Facilities

Facilities are carried at historical cost and include the expenditure of federal grants-in-aid of construction and the cost of significant renewals and betterments. Federal grants-in-aid of construction are recorded as contributed capital as earned and amortized on the straight-line method over the service lives of the related assets. Expenditures for repairs and maintenance are charged to expense as incurred.

charged to expense as incurred.

Depreciation
Depreciation is provided on the straight-line method based on estimated useful lives of the related assets beginning in the fiscal year of acquisition or upon completion of construction. Depreciation is computed on facilities which are recorded in the accounts of the Authority, including those financed by grants-in-aid of construction.

Interest Capitalization
The Authority capitalizes certain interest associated with the cost of restricted tax-exempt borrowings, less any interest earned on temporary investment of the proceeds of those borrowings during the period of construction. Interest expense of $11,304,000 and $12,410,000 reduced by interest income of $5,737,000 and $4,094,000 for the years ended June 30, 1999 and 1998, respectively, has been capitalized as a part of the cost of construction projects.

Accounting for Compensated Absences
The Authority accrues for vacation and sick pay when it is earned. The liability for vested vacation and sick pay is reflected in the accompanying balance sheets under the caption "accrued compensated absences."

Deferred Compensation
The Authority offers its employees a deferred compensation plan (the "Plan") created in accordance with Internal Revenue Code Section 457. The Plan, available to all Authority employees, permits them to defer a portion of their salary until future years.

Effective December 31, 1997, Section 457 of the Internal Revenue Code was amended by Section 1448 of the Small Business Job Protection Act of 1996 which provides that governmental deferred compensation plans must hold all assets and income of the plan in trust for the exclusive benefit of participants and their beneficiaries.

In accordance with the legislation described above, the assets and associated liability of the deferred compensation plan are not included in the Authority's financial statements.

Deferred Income
Deferred income consists primarily of amounts received from the Massachusetts Highway Department (MHD) primarily for temporary and permanent easements of certain properties at Logan Airport which provide MHD with sufficient rights in land owned by the Authority to permit MHD to complete the Ted Williams Tunnel project, as currently designed. Income received from these easements will be recognized over the shorter of the asset's useful life or the original term for temporary easements, and over the estimated useful life of the assets constructed under permanent easements, which is estimated at 25 years.

Passenger Facility Charges
Revenues derived from the collection of passenger facility charges (PFCs) are recognized and reported as non-operating revenue by the Authority.

Financial Statement Reclassification
Certain accounts in the June 30, 1998 financial statements have been reclassified to conform with the June 30, 1999 presentation.

B. Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the Trust Agreement:

The provisions of the Enabling Act and the Trust Agreement prescribe certain accounting practices to be followed in maintaining the accounts and records of the Authority.

Under the Trust Agreement, monthly cash revenues of the Authority are deposited in the Operating Fund. After providing for operating expenses, including pension expense and transfers to the self-insurance account, cash revenues are then transferred to the Interest and Sinking Fund, which are applied to debt service on any outstanding bonds, the Maintenance Reserve Fund, the Payment In Lieu of Taxes Fund, and if applicable, the Capital Budget Fund and finally the Improvement and Extension Fund. Cash and investments held in the Improvement and Extension Fund, to the extent designated by the Authority, are deposited in the Capital Budget Account within such fund.

Presented below are the 1999 and summary 1998 revenues and operating expenses as determined in accordance with the Trust Agreement, and a reconciliation to net income as presented in the accompanying Statements of Income under generally accepted governmental accounting principles (GAGAP).

(in thousands)	Bridge	Airport Properties	Port Properties Maritime	Port Properties Development(5)	Income on Investments	1999 Total	1998 Total
Revenues, net:							
Pledged revenues[6]	$ 11,647	$ 245,394	$ 30,098	$ 7,107	$ 16,535	$ 310,781	$ 290,887
Passenger Facility Charges (Note E)[3]	—	—	—	—	—	—	37,622
Total	11,647	245,394	30,098	7,107	16,535	310,781	328,509
Operating expenses:							
Operations and maintenance	4,746	94,062	27,225	3,435	—	129,468	113,665
Administration	2,141	42,527	6,830	2,959	—	54,457	49,889
Insurance	236	1,735	433	154	—	2,558	2,890
Pension (Note G)	92	1,209	181	51	—	1,533	3,228
Total	7,215	139,533	34,669	6,599	—	188,016	169,672
Excess (deficit) of revenues over operating expenses under trust agreement	4,432	105,861	(4,571)	508	16,535	122,765	158,837
Add:							
Self insurance cost[1]	9	(14)	(36)	(1,635)	—	(1,676)	476
Pension adjustment[1]						—	640
Self insurance income on investments[3]	—	—	—	—	1,375	1,375	1,322
Passenger Facility Charges (Note E)[3]	—	35,327	—	—	3,021	38,348	—
Less:							
Payments in lieu of taxes[4]	(949)	(11,163)	(910)	(438)	—	(13,465)	(12,062)
Gain/(loss) on sale of equipment[2,3]	(5)	(93)	—	—	—	(98)	577
Other[4]	(128)	(2,574)	(488)	(98)	—	(3,288)	(532)
Interest expense[4]	(1,903)	(23,270)	(3,843)	(1,173)	—	(30,189)	(33,701)
Interest expense - PFC[4]	—	(569)	—	—	—	(569)	—
Depreciation and amortization[4]	(3,343)	(49,424)	(8,107)	(4,798)	—	(65,672)	(60,406)
Loss from termination from swap agreement[4]	—	—	—	—	—	—	(6,087)
Net income (loss)	$ (1,887)	$ 54,076	$(17,955)	$ (7,634)	$ 20,931	$ 47,531	$ 49,064

Development includes activities related to the Authority's alternative use program, principally the Commonwealth, Fish and Hoosac Piers.

[1]Expensed under Trust Agreement, not an expense under GAGAP.
[2]Equipment is depreciated under GAGAP but not under Trust Agreement.
[3]Not revenue under Trust Agreement, revenue under GAGAP.
[4]Not operating income/(expense) under Trust Agreement, income/(expense) under GAGAP.
[5]Development includes activities related to the Authority's Commonwealth, Fish and Hoosac Piers.
[6]For trust accounting purposes, the provision for uncollectible accounts is netted within the accounts listed under the Pledged Revenues caption

C. Cash, Cash Equivalents and Investments:

The following summarizes the Authority's cash, cash equivalents and investments at June 30, 1999 by the various funds and accounts established under the Trust Agreement and the PFC Trust Agreement. Summary 1998 information is also presented:

	Cash	Assets whose use is limited Cash, Cash	

(in thousands)	and Cash Equivalents	Investments	Equivalents and Investments	1999 Total	1998 Total
User defined for specific purposes:					
Operating/revenue fund	$ 27,969	$ —	$ —	$ 27,969	$ 14,455
Self-insurance account	—	—	24,148	24,148	23,970
Maintenance reserve	—	—	27,058	27,058	34,343
Payments in lieu of taxes	—	—	7,900	7,900	7,459
Capital budget	—	—	144,026	144,026	111,591
Improvement and Extension Fund	1,943	23,552	—	25,495	28,690
1990 Interest and Sinking Fund	—	—	8,544	8,544	8,510
1992 Interest and Sinking Fund	—	—	7,531	7,531	7,516
1993 Interest and Sinking Fund	—	—	14,071	14,071	13,970
1997A Interest and Sinking Fund	—	—	18,088	18,088	14,508
1997B Interest and Sinking Fund	—	—	4,886	4,886	4,337
1998A Interest and Sinking Fund	—	—	12,706	12,706	12,407
1998B Interest and Sinking Fund	—	—	7,246	7,246	6,290
1998C Interest and Sinking Fund	—	—	25,288	25,288	25,647
1998D Interest and Sinking Fund	—	—	6,074	6,074	—
1998E Interest and Sinking Fund	—	—	7,385	7,385	—
1996B Project Account	—	—	—	—	3,017
1997 Note Project Account	—	—	1,235	1,235	877
1997A Project Account	—	—	10,803	10,803	39,892
1997B Project Account	—	—	—	—	4,909
1998D Project Account	—	—	10,901	10,901	—
1998E Project Account	—	—	30,501	30,501	—
1998 Refunding Project Account	—	—	52	52	171
Credit Enhancement Account (Note H)	—	—	8,689	8,689	8,996
PFC Revenue/Debt Service	—	—	—	—	5,080
I&E PFC	—	—	—	—	50,384
PFC Pledge Revenue	—	—	2,454	2,454	—
PFC Capital	—	—	71,160	71,160	—
1999A&B PFC Funded Interest	—	—	1	1	—
1999A Funded Debt Service Reserve	—	—	24,985	24,985	—
1999A PFC Project	—	—	33,438	33,438	—
1999B PFC Project	—	—	162,430	162,430	—
Total	$ 29,912	$ 23,552	$ 671,600	$ 725,064	$ 427,019

The carrying amount of the Authority's cash deposits was $2,345,000 and $4,519,000 at June 30, 1999 and 1998, respectively. The bank balance was $6,307,000 and $13,099,000 at June 30, 1999 and 1998, respectively. The nature of the reconciling items between the book and bank balance consisted primarily of outstanding checks which had not cleared the bank at year-end. The bank balance was fully collateralized as of June 30, 1999 and 1998.

The following summarizes the Authority's cash and cash equivalents and investments by type held at June 30, 1999. Summary 1998 information is also presented.

(in thousands)	Carrying Amount	Market Value
Certificates of deposit	$ 5,034	$ 5,034
Repurchase agreements	243,930	243,930
U.S. Government Agencies and Instrumentalities:		
Federal Farm Credit (FFC)	16,529	16,491
Federal Farmer Mortgage (FRM)	2,118	2,118
Federal National Mortgage Association (FNMA)	146,646	146,316
Federal Home Loan Bank (FHLB)	143,310	142,490

Federal Home Loan Mortgage Corp. (FHLMC)	79,054	78,932
Tennessee Valley Authority (TVA)	3,870	3,864
Total U.S. Government Agencies and Instrumentalities	391,507	390,211
Fidelity U.S. Treasury Income Portfolio	195	195
Mutual fund and others (MMDT)	82,053	82,053
Total investments	722,719	721,423
Cash deposits	2,345	2,345
Total at June 30, 1999	$ 725,064	$ 723,768
Total at June 30, 1998	$ 427,019	$ 426,613

The Authority is authorized by the Trust Agreement and the PFC Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in bank time deposits and in repurchase agreements. All investments are held on behalf of the Authority by the Authority's trustees and custodian.

The certificates of deposit and the repurchase agreements listed above are collateralized by obligations of the U.S. Government or agencies of the U.S. Government. The Trust Agreement and the PFC Trust Agreement require that securities underlying repurchase agreements at the time of purchase must have a market value at least equal to the cost of the agreement plus accrued interest. The Fidelity U.S. Treasury Income Portfolio Mutual Fund is held by the Authority in accordance with the Credit Enhancement Agreement, (see footnote H), and is not guaranteed by the U.S. Government.

D. Investment in Facilities and Depreciation:

Net investment in facilities at June 30, 1999 and 1998 is comprised of:

(in thousands)	1999	1998
Facilities completed by operation:		
Airport	$1,303,057	$1,083,898
Bridge	125,042	116,546
Port	379,413	375,589
Investment in facilities	1,807,512	1,576,033
Facilities completed by type:		
Land and land improvements	113,226	112,323
Bridge and bridge improvements	119,059	110,837
Buildings	1,147,747	942,271
Runways and other paving	339,656	328,522
Machinery and equipment	87,824	82,080
	1,807,512	1,576,033
Accumulated depreciation and amortization	(790,026)	(727,828)
	1,017,486	848,205
Construction in progress	270,513	306,421
Net investment in facilities	$1,287,999	$1,154,626

Estimated useful lives used in the calculation of depreciation are as follows:

Bridge	100 years
Bridge improvements	10 and 25 years
Airport facilities - buildings, runways and other paving	10 and 25 years

Port facilities – buildings and piers	25 years
Machinery and equipment	5 and 10 years

E. Passenger Facility Charges:

In 1993, the Authority received approval from the Federal Aviation Administration (FAA) to impose a $3.00 passenger facility charge (PFC) at Logan airport. PFCs collected by the Authority are an amount in lieu of Federal grants and can be used for capital projects determined by the FAA to be eligible in accordance with the Aviation Safety and Capacity Expansion Act of 1990. The Authority was authorized to collect net PFCs up to $598.8 million for the period of November 1, 1993 through October 1, 2011.

In January 1997, the Authority received approval from the Federal Aviation Administration (FAA) to increase its collections up to $631.8 million with a projected expiration date of September 1, 2012. The Authority also received approval from the FAA to use or expend a total of $493.2 million for preliminary design projects as well as for the final design, construction and financing costs associated with the eligible portions of residential soundproofing, Terminal E Modernization, circulating roadways and the elevated walkways.

In February 1998, the Authority received approval from the Federal Aviation Administration (FAA) to increase its collections up to $927.4 million with a projected expiration date of October 1, 2017. The Authority also received approval to use or expend $434.1 million for the final design, construction and financing costs associated with the eligible portions of the International Gateway Project.

On May 6, 1999, the Authority approved the PFC Trust Agreement with the Bank of New York, simultaneously removing PFC revenues from the pledge of the Trust Agreement. All PFCs collected by the Authority are currently pledged under the PFC Trust Agreement. On June 16, 1999, the Authority issued $249,355,000 PFC Revenue Bonds, Series 1999A and 1999B pursuant to the PFC Trust Agreement.

The amount of PFC revenue and the bond proceeds invested in Port Authority facilities, operations and reserves that are restricted for future PFC project payments is as follows:

(in thousands)	June 30, 1999
Total assets, PFCs	$447,111
PFC funds and PFC Bond fund expended on approved projects	(154,249)
PFCs and PFC Bond proceeds restricted but not yet expended	$292,862

F. Funded Debt:

The following is a summary of the Authority's funded debt activity for the years ended June 30, 1999 and 1998:

(in thousands)	1999	1998
Funded debt, beginning of year	$ 738,885	$ 569,185
Debt refinanced	—	(303,195)
New debt issued	405,345	537,515
Principal paid on funded debt	(54,080)	(64,620)
Funded debt, end of year	$1,090,150	$ 738,885

Funded debt at June 30, 1999 and 1998 is comprised of the following:

(in thousands)	Weighted Average Interest Rate at June 30, 1999	1999	1998
Revenue Refunding Bonds:			

Series 1993 - A & B	5.3%	$ 46,410	$ 49,200
Series 1997 - C	4.8%	14,815	15,040
Series 1998 - A, B & C	5.8%	256,895	266,915
Revenue Bonds:			
Series 1990 - A	7.1%	9,965	11,480
Series 1992 - A & B	5.6%	17,915	19,445
Series 1997 - A	5.1%	68,185	68,185
Series 1997 - B	5.0%	21,125	21,125
Series 1998 - D	4.6%	22,235	—
Series 1998 - E	5.0%	25,870	—
Term Revenue Bonds	5.4%	343,380	238,495
PFC Revenue Bonds:			
Series 1999 - A	5.1%	67,665	—
Series 1999 - B	5.1%	181,690	—
Commercial paper	3.2%	14,000	49,000
Total funded debt		1,090,150	738,885
Less: unamortized loss on refunding		(3,856)	(342)
Less: original issue discount		(5,201)	(4,010)
Total		$1,081,093	$ 734,533

Scheduled principal payments on funded debt are due annually July 1 as follows:

Fiscal Year	Amount (in thousands)
2000	$ 33,460
2001	20,505
2002	33,195
2003	34,925
2004	36,665
Thereafter	931,400
Total	$1,090,150

On June 16, 1999, pursuant to the PFC Trust Agreement, the Authority issued $67,665,000 PFC Revenue Bonds, Series 1999A, to fund the roadways associated with the International Gateway, and $181,690,000 PFC Revenue Bonds, Series 1999B, to fund the PFC eligible portions of the terminal work associated with the International Gateway (see Note E).

On August 13, 1998, the Authority issued $67,705,000 in Revenue Bonds, Series 1998-D and $85,285,000 in Revenue Bonds, Series 1998-E primarily to fund the construction of various airport and airfield improvements, the acquisition of various segments of airport roadways from the Massachusetts Highway Department and the repayment of $38,000,000 of outstanding commercial paper debt.

On January 29, 1998, the Authority issued $104,660,000 in Revenue Refunding Bonds, Series 1998-A, $47,610,000 in Revenue Refunding Bonds, Series 1998-B, and $132,720,000 in Taxable Revenue Refunding Bonds, Series 1998-C that refunded all of the Authority's outstanding Revenue Refunding Bonds, Series 1978, and all of the Authority's outstanding Multi-Modal Revenue Bonds, Series 1995-A and Series 1995-B and a portion of the outstanding Revenue Bonds, Series 1990-A, Series 1992-A and Series 1992-B.

On August 21, 1997, the Authority issued $43,730,000 in Revenue Bonds, Series 1997-B to fund the construction of the non-PFC portion of the Terminal E Modernization, electrical upgrades to serve the needs of Logan Modernization, the completion of the BIF garage, and Cargo Building No. 63.

On August 7, 1997, the Authority issued $140,465,000 in Revenue Bonds, Series 1997-A to fund

On August 7, 1997, the Authority issued $140,465,000 in Revenue Bonds, Series 1997-A to fund the construction of the West Garage, Central Garage Modifications, Logan Roadway Betterments and various airfield improvements, as well as $19,330,000 in Revenue Refunding Bonds, Series 1997-C that advance refunded a portion of the outstanding Revenue Bonds, Series 1990-A.

The refunding of the 1978 Bonds, the 1990-A Bonds, the 1992-A Bonds, the 1992-B Bonds, the 1995-A Bonds, and the 1995-B Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $7,368,000. This difference, reported in the accompanying financial statements as a reduction of bonds payable, is being charged to operations over the life of the 1998 Series A, B and C bonds using the straight-line method. As a result of the defeasance, the Authority will reduce its aggregate debt service payments by approximately $35,610,000 and achieve an economic gain, (the difference between the present value of the old and new debt service payments), of $17,020,000.

In fiscal 1993, the Authority entered into a forward interest rate swap arrangement in the initial notional amount of $71,715,000 which took effect July 1, 1995 for the seven-year period ending June 30, 2002, with a portion continuing through January 1, 2003. Under this arrangement, the Authority paid interest at 6.405% per annum and received interest at a floating rate. As a result of the Series 1998 A, B, and C refunding, the Authority terminated the swap agreement. This termination required the Authority to pay the counterparty to the swap agreement $6,087,000, which was substantially equal to the present value of the Authority's remaining obligations under the swap arrangement. This termination payment is recorded as an extraordinary item in the accompanying financial statements.

In March 1997, the Authority authorized the extension of the 1996 commercial paper program for another year by extending the Letter of Credit with Canadian Imperial Bank of Commerce ("CIBC"), the dealer agreement with J.P. Morgan and the paying agent agreement with Bankers Trust Company. In July 1997, the Authority voted to increase the commercial paper program and the associated Letter of Credit with CIBC to $80 million, and to offer both a non-AMT program (called the 1996 Series) and an AMT series (called the 1997 Series). In June 1998, the Authority again voted to increase the commercial paper program to up to $100 million in the aggregate and to enter into a three-year letter of credit with Westdeutsche Landesbank Girozentrale, acting through its New York Branch, and terminate the letter of credit with CIBC. The sum of the two programs will not exceed the lesser of 10% of the outstanding principal on the Authority's outstanding debt or $100 million. During fiscal 1999, the Authority repaid $38 million of commercial paper with the proceeds from the 1998 Revenue Bonds Series D and E as described above. In addition, during fiscal 1999, the Authority borrowed $3 million from the 1997 Series. As of June 30, 1999 and 1998, $14 million and $49 million in commercial paper is outstanding, representing $0 in 1996 Series and $14 million in 1997 Series at June 30, 1999, and $20 million in 1996 Series and $29 million in 1997 Series at June 30, 1998, respectively.

In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with the Trustee for such bonds to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 1999, the following bonds are considered defeased:

(in thousands)	
1964 Series	$ 16,600
1969 Series	35,865
1971 Series	52,045
1973 Series	70,045
1982 Series	47,100
Total defeased bonds	$221,655

G. Pension Costs:

In July 1978, the Massachusetts legislature passed legislation which was enacted as Chapter 487 of the Massachusetts Acts of 1978 ("C.487") and signed into law on July 18, 1978. This act provided for the establishment of the "Massachusetts Port Authority Employees' Retirement System," (the Plan), a contributory retirement system that is separate from the Massachusetts State Employees' Retirement System. Prior to this enactment, Authority employees were members of the state employees' system, and the funding of the pension liability was on a "pay as you go" method. Pursuant to C.487, the employees' rights and benefits under the state plan were transferred to the new system, and the Authority established a separate pension fund. The Single Employer Plan was established to provide retirement benefits for substantially all employees of the

Employer Plan was established to provide retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries and contingent annuitants. The Plan is a contributory defined benefit plan to which the Authority and its employees contribute such amounts as are necessary, on an actuarial basis, to provide assets sufficient to meet benefits to be paid to plan participants.

At January 1, 1999, the Plan's membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	329
Current members:	
Active	1,158
Inactive	69
Total	1,556

Benefits are paid by the Plan from net assets available for plan benefits. Plan participants are entitled, at normal retirement date, to benefit payments based upon length of service and earnings levels. Vesting occurs after 10 years of service. Optional payment methods may be elected, including the contingent annuitant method which provides for reduced payments during the life of the plan participant and continued payments to the participant's beneficiary after the death of the participant.

The Authority funds pension costs based on the actuarially determined annual pension expense which includes current service cost and the amortization, over a 20-year period, of unfunded prior service costs. This annual pension contribution, as actuarially determined, includes a factor for the reimbursement to the Commonwealth for amounts expended by the Commonwealth on account of the Authority's employees retired prior to January 1, 1979.

The Authority's covered payroll for members of the Plan as of the most recent actuarial valuation dates was approximately $56,888,000 as of January 1, 1999. Total payroll for Authority employees was $70,188,419 for the 12 months ended June 30, 1999.

The actuarial cost method utilized to determine contributions to the Plan for the years ended December 31, 1998 and 1997 is the entry age normal-frozen initial liability cost method.

The more significant actuarial assumptions underlying the actuarial computations for the years ended December 31, 1998 and 1997 are as follows:

Assumed rate of return on investments	8.0% per annum compounded annually
Nondisabled life mortality	1983 Group Annuity basis table for males with females set back six years
Withdrawal prior to retirement	The rates shown at the following sample ages illustrate the withdrawal assumption

Rate of Withdrawal

Age	Group 1 and 2	Group 4
25	9.0%	1.8%
30	5.6%	1.7%
35	3.2%	1.3%
40	2.3%	.5%
45	1.8%	.04%
50	1.5%	N/A
55	N/A	N/A

Salary escalation	5.5% per annum
Rates of retirement	Group 1 and 2 employees are assumed to retire at the later of age 63 and 10 years of service Group 4 employees are assumed to retire at the later of age 56 and 10 years of service

Retirement benefits	1.5% - 2.5% per year of service for Group 1 and Group 4
	2.0% - 2.5% per year of service for Group 2
Postretirement cost of living increases	3% per annum compounded annually on the first $12,000 of pension benefits for 1998 and on the first $9,000 of pension benefits for 1997

The amount shown below as "actuarial accrued liability" (AAL) is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other Public Employee's Retirement Systems Plans.

At January 1, 1999, the unfunded actuarial accrued liability was $3,377,786 determined as follows:

Total actuarial accrued liability	$234,184,443
Actuarial value of assets	230,806,657
Unfunded actuarial accrued liability	$ 3,377,786

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due and fund operating costs of the Plan. The Plan also amortizes the unfunded liability in level amounts over a period of 20 years.

Total contributions to the Plan were $6,412,464 for the Plan year ended December 31, 1998. This includes employee contributions of $4,879,593 which are based upon a percentage of employee base pay (5% for employees hired before January 1, 1975, 7% for employees hired between January 1, 1975 and January 1, 1984, 8% for employees hired after January 1, 1984 and 9% for employees hired after July 1, 1996 and, effective January 1, 1998, an additional 2% of base pay over $30,000 for those employees hired after December 31, 1978) and employer contributions of $1,532,871 which were made in accordance with actuarially determined contribution requirements determined through an actuarial valuation performed for the Plan's fiscal year beginning January 1, 1999. Employer contributions consisted of (a) $912,684 normal cost, (b) $620,187 amortization of the unfunded actuarial accrued liability and (c) $114,000 funding for operating costs.

The following table for the years 1997 and 1998 reflects the Schedule of Funding progress under the Entry Age Normal Method which is the required method for all other retirement systems governed by Chapter 32 of the Massachusetts General Laws. The Plan believes that this method of valuation more clearly reflects the actual funding status of the Plan.

(in thousands)

Actuarial Valuation Date	(a) Accrued Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Liability (UAAL)	(a/b) Annual Funded Ratio	(c) Covered Payroll	(b-a)/c UAAL as a Percent of Covered Payroll
1/1/98	$202,761	$171,115	$(31,646)	118.5%	$54,393	(58.2)%
1/1/97	175,804	166,000	(9,804)	105.9%	50,563	(19.4)%

As presented in the following table, the Frozen Initial Liability Method for calculating the schedule of funding progress is the methodology required by the Plan under its charter. However when this methodology is applied in accordance with the guidelines of GASB 25 in the presentation of these financial statements, the Plan does not believe that the result properly reflects the actual funding status and has therefore presented valuations using both the Entry Age Normal Method and the

status and has therefore presented valuations using both the Entry Age Normal Method and the Frozen Initial Liability Method.

	(in thousands)					
	(a)	(b)	(b-a) Unfunded	(a/b)	(c)	(b-a)/c UAAL as a
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Percent of Covered Payroll
1/1/99	$230,807	$234,184	$3,378	98.6%	$56,888	5.9%
1/1/98	202,761	208,176	5,415	97.4%	54,393	10.0%
1/1/97	175,804	179,135	3,651	98.0%	50,563	7.2%
1/1/96	158,403	160,266	1,863	98.8%	49,193	3.8%
1/1/95	134,981	137,794	2,813	98.0%	44,496	6.3%
1/1/94	126,496	137,495	10,999	92.0%	39,916	27.6%
1/1/93	110,432	113,024	2,592	97.7%	40,380	6.4%

Analysis of the dollar amounts of actuarial value of assets, AAL and UAAL, in isolation, can be misleading. Expressing the actuarial value of assets as a percentage of the AAL provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employee Retirement System (PERS). Trends in assets in excess of AAL and annual covered payroll are both affected by inflation. Expressing the assets in excess of AAL as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due.

Schedule of Employer Contributions:

	(in thousands)	
Calendar Year Ended December 31	Annual Required Employer Contributions (ARC)	Employer Contributions as a percent of ARC
1998	$1,233	124%
1997	3,228	100%

The Plan's financial statements have been prepared in accordance with generally accepted accounting principles applicable to governmental units.

Plan investments are valued according to accounting policies adopted by the Trustee. Common stocks traded on national exchanges are valued at the last reported sales price. U.S. Government and corporate bonds are stated at cost adjusted, as applicable, for amortized discounts and premiums. The Plan's investment in venture capital limited partnerships are accounted for using the cost method.

Certain operating expenses incurred by the Plan are funded by the Authority through additional employer contributions. Investment management fees, consulting fees and custodial fees for the Plan are reflected as deductions to investment income.

For the financial statements prepared in accordance with generally accepted governmental accounting principles, pension expense includes current service cost and amortization of past service costs which were determined as of July 1, 1973, over a 25-year period, commencing in 1974. Total pension expense so determined was $1,533,000 and $2,588,000 for the years ended June 30, 1999 and 1998, respectively.

H. Contingent Liabilities and Commitments:

Contractual Obligations for Construction

Contractual obligations for construction were approximately $358,146,000 at June 30, 1999.

Contractual obligations for construction were approximately $358,146,000 at June 30, 1999.

Credit Enhancement Agreement
During fiscal 1991, the Authority entered into a Credit Enhancement Agreement in connection with an unrelated partnership's bond issuance. The bonds were issued to provide financing to the partnership (the Borrower), for construction, which was completed in fiscal 1993, of a conference center and hotel located at Logan Airport. The Credit Enhancement Agreement represents a guarantee by the Authority to pay bondholders up to $8.6 million, in the event the Borrower does not have sufficient funds, as defined, to meet its debt service requirements.

In the opinion of the Authority's management, no advance against the Credit Enhancement Agreement is anticipated during the next 12 months. However, any such advance, then taking the form of a loan from the Authority to the Borrower, would bear interest at 10%.

Third Harbor Tunnel
The Massachusetts Highway Department ("MHD") is undertaking a depression of a portion of I-93 in downtown Boston ("Central Artery") and the extension of the eastern terminus of I-90 to the Airport by construction of a new tunnel under Boston Harbor (the "Ted Williams Tunnel"), (collectively, the "CA/T Project").

Pursuant to the provisions of Chapter 3 of the Acts of 1997, as amended by Chapter 11 of the Acts of 1997, the Authority, MHD and the Massachusetts Turnpike Authority have entered into a Roadway Transfer Agreement dated as of March 23, 1999 that provides for the acquisition by the Authority of certain identified segments of the CA/T Project located at Logan Airport following completion of construction of such segments, in exchange for installment payments by the Authority to the Commonwealth totaling an aggregate of $300 million. The payments are due in the following amounts on December 31 of each of the following fiscal years: $12.1 million, $30.7 million, $52.2 million, $105 million, $50 million and $50 million, in fiscal years 1998, 1999, 2000, 2003, 2004 and 2005, respectively. The Authority has made the payments for fiscal years 1998 and 1999 to the Commonwealth.

The Authority and MHD have entered into a Settlement Agreement dated as of January 15, 1998 (the "CA/T Settlement Agreement") which is intended to resolve all past and certain future land acquisition claims relating to the portions of the Authority's property at the Airport and in South Boston necessary to complete the Ted Williams Tunnel project.

Pursuant to the CA/T Settlement Agreement, MHD has agreed to make payments to the Authority and certain of its tenants and to provide certain betterments to the Authority. As of June 30, 1999, the Authority has received payments from MHD totaling approximately $27.2 million. In return, the Authority has agreed to release MHD from all pending land damage lawsuits and claims relating to the Ted Williams Tunnel project asserted by the Authority against MHD, to assist MHD with relocation of certain Airport tenants, to work diligently to cause certain tenants of the Authority to dismiss pending land damage actions against MHD, and to provide MHD with sufficient rights in land owned by the Authority at the Airport to permit MHD to complete the Ted Williams Tunnel project, as currently designed.

Seaport Bond Bill
The Seaport Bond Bill was enacted on February 14, 1996 and provides authorization for funding by the Commonwealth of $15 million towards the non-federal share of the cost of completing the Boston Harbor Navigation Improvement Project, including without limitation: the cost of dredging the Authority's deep cargo berths; all costs associated with the preparation of the environmental studies and reports; and the costs related to the design and relocation of the MWRA pipeline in the Chelsea Creek. The Seaport Bond Bill requires the Authority to pay twenty-five percent (25%) of the non-federally funded costs of the Project. The Authority has already paid or committed approximately $5 million of the non-federal share of the Project. Independent berth owners have contributed approximately $500,000. A second provision of the Seaport Bond Bill would provide a mechanism for funding improvements to the Massachusetts rail transportation network allowing rail shipment of double stack cargo from Allston yards in Boston to points west, which is anticipated to encourage expanded container shipments through the Port of Boston. The Seaport Bond Bill requires that the Authority provide up to fifty percent (50%) of the cost of improvements to the rail line from Framingham to the Allston yard in Boston permitting double stack shipments, at an estimated cost to the Authority of approximately $38 million. Expenditure of funds will not occur until the execution of a Master Agreement, as defined by the statute, between the Commonwealth and the participating railroads.

Worcester Airport
On April 15, 1999, the Authority entered into a Memorandum of Understanding ("M.O.U.") with the City of Worcester, Massachusetts and the Worcester Airport Commission (the "City Parties"). The M.O.U. contemplates the takeover of the Worcester Regional Airport by the Authority in two

M.O.U. contemplates the takeover of the Worcester Regional Airport by the Authority in two separate phases. Phase One, anticipated by the M.O.U. to take place by September 1, 1999, involves the assumption by the Authority of operating responsibility for Worcester Regional Airport pursuant to a separate Operating Agreement. Phase Two, anticipated by the M.O.U. to take place within five years of the date of execution of the Operating Agreement, will involve the transfer of title of Worcester Regional Airport from the City Parties to the Authority. The Authority's goal is to develop a more effective and efficient regional airport network by increasing utilization of Worcester Regional Airport in conjunction with ongoing operation of its other airport facilities.

As of September 1, 1999, the terms of the Operating Agreement are still under negotiation.

I. Payments in Lieu of Taxes:

The Enabling Act authorizes and directs the Authority, subject to certain standards and limitations, to enter into agreements, (collectively, the "PILOT Agreements"), to make annual payments in lieu of taxes to Boston, Chelsea, and Winthrop. In fiscal 1992, the Authority's obligation to Chelsea for annual in lieu of tax payments through 2012 was satisfied by a payment of $5,000,000. In response to increased traffic on the Bridge and the increased impact of the Airport on Chelsea since 1992, however, in fiscal 1999 the Authority and Chelsea amended their PILOT agreement to provide for annual payments by the Authority to the City of Chelsea of $500,000 for each of the fiscal years 1999 through 2003, inclusive.

In fiscal 1994, the Authority entered into an extension of an amendment to its agreement with Winthrop (the "Winthrop PILOT Agreement") which extended the base in lieu of taxes payments through fiscal 1999 and added further components to such payments: a parks/related facilities portion, payable through fiscal 2011, of $150,000, to be adjusted annually based upon the percentage increase in the number of annual air passengers at Logan Airport; and a tree planting portion of $12,500 payable through fiscal 1998. In August 1997, the Authority and Winthrop entered into a further amendment of the Winthrop PILOT Agreement which added another two components to such in lieu of taxes payments: an Ingleside Park/Related Facilities Portion consisting of an annual payment of $383,333, payable each September 1 of fiscal 1998 through fiscal 2000; and an Additional Environmental Portion consisting of an annual payment of $150,000 payable each September 1 of 2001 through fiscal 2005. Neither the Ingleside Park/Related Facilities Portion nor the Additional Environmental Portion are subject to the escalation provisions of the Winthrop PILOT Agreement.

In fiscal 1995, the Authority entered into a comprehensive Amended and Restated Payment-in-Lieu-of Taxes Agreement with the City of Boston, (the "Boston PILOT Agreement"), with a term commencing on March 14, 1995 and ending June 30, 2005. Pursuant to the Boston PILOT Agreement, the Authority will pay to the City the sum of $10,000,000 annually, which payment will be increased by the annual percentage change in the consumer price index, provided that such increase shall be no less than 3%, nor greater than 7%, per year. In August 1997, the Authority and certain community groups entered into agreements which provide for additional payments under the Boston PILOT Agreement, for a minimum of $4.8 million and up to $9.6 million, with payments to be made as milestones, associated with modernization of Logan Airport, were reached. These additional payments are not subject to annual adjustments.

The Authority's Enabling Act, the Trust Agreement and the PILOT Agreements provide that annual payments under the PILOT Agreements may not exceed the balance of revenues remaining after deposits to the payment of operating expenses, required deposits to the Interest and Sinking Fund and required deposits to the Maintenance Reserve Fund.

J. Litigation:

In April 1991, the Massachusetts Department of Environmental Protection ("DEP") sent the Authority a Notice of Responsibility ("NOR") under M.G.L. c. 21E, Section 5(a), alleging that there have been releases of oil and hazardous materials at Logan Airport and that, as the owner of Logan Airport, the Authority is a "responsible party" liable for the costs of investigating, assessing and remediating soil and groundwater contamination at the Logan Airport site. Following further assessment activities at Logan Airport, DEP issued another NOR dated March 9, 1994, in which DEP concluded that Logan Airport is not a single contaminated site but rather the location of thirty-one (31) separate and discrete contaminated sites. Assessment and remediation of soil and groundwater contamination at the Logan Airport contamination sites identified by DEP is continuing. While the full nature and extent of the contamination and necessary remedial and cleanup measures have yet to be determined, response costs under c. 21E may be substantial. The Authority, however, has recovered a significant share of its costs of compliance with c. 21E from third parties who are responsible for the contamination and from liability insurance carriers who provided coverage to the Authority. To date, the Authority has recovered approximately $11 million dollars from third parties and insurers and has obtained substantial commitments from third parties to conduct further c. 21E compliance measures at a number of the Logan Airport contamination

to conduct further c. 21E compliance measures at a number of the Logan Airport contamination sites identified by DEP. It may be necessary for the Authority to initiate litigation against those few remaining responsible parties that have refused to either agree to perform remedial work or reimburse the Authority. The Authority expects to recover any remaining costs of compliance through rates and charges levied upon users of the Airport.

The Authority is also a defendant in a number of legal proceedings arising in the normal course of business. Management, after reviewing all actions and proceedings pending against or involving the Authority with legal counsel, believes that the aggregate liability of loss, if any, resulting from the final outcome of those proceedings will not materially affect the Authority's financial statements.

K. Leases:

The Authority leases a major portion of its Aviation and Port Properties to various tenants. Most of these operating leases provide for periodic adjustments to rental rates. In addition, certain of the lease agreements contain provisions for contingent payments based on a specified percentage of the tenant's gross revenue. Rental income from contingent payments received under these provisions was approximately $37,845,000 and $34,864,000 for 1999 and 1998, respectively.

Minimum future rental income, excluding contingent rentals, from noncancelable operating leases as of June 30, 1999 are:

Year	Amount (in thousands)
2000	$ 28,833
2001	25,951
2002	19,367
2003	16,748
2004	15,294
Thereafter	389,038
Total	$495,231

The Authority has also entered into operating leases as the lessee. The following is a schedule by years of future minimum rental payments under noncancelable operating leases as of June 30, 1999:

Year	Amount (in thousands)
2000	$ 19,607
2001	19,544
2002	19,327
2003	17,678
2004	17,608
Thereafter	60,639
Total	$154,403

Rent expense was $17,862,000 and $15,632,000 for 1999 and 1998, respectively.

During 1999, the Authority made a payment of approximately $2.5 million to one of its lessees as an incentive for the lessee to surrender to the Authority its long term leasehold interest in the East Boston Shipyard. The Authority is holding an additional amount of approximately $125,000 in escrow pending completion of required repairs.

massport

FINANCIAL STATEMENTS

Y2K COMPLIANCE STATEMENT

REPORT OF INDEPENDENT ACCOUNTANTS ON REQUIRED SUPPLEMENTAL INFORMATION

To the Members of the Massachusetts Port Authority:

Our report on the audit of the financial statements of the Massachusetts Port Authority (the "Authority") as of June 30, 1999 and for the year then ended is presented in the first section of this document. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Required Supplemental Information Related to Year 2000 Readiness for the year ended June 30, 1999, as presented herein is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because the disclosure criteria specified by Technical Bulletin 98-1, as amended, are not sufficiently specific and, therefore, preclude the prescribed procedures from providing meaningful results. In addition, we do not provide assurance that the Authority is or will become year 2000 compliant, that the Authority's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Authority does business are or will become year 2000 compliant.

PricewaterhouseCoopers LLP

September 10, 1999

REQUIRED SUPPLEMENTAL INFORMATION RELATED TO YEAR 2000 READINESS FOR THE YEAR ENDED JUNE 30, 1999

Massport has established a program ("Y2K Compliance Program") to address the Year 2000 issue including a comprehensive five phase program ("System Compliance Program") to assure the Authority's computer systems and other equipment dependent on microchip technology (the "Systems") will accurately process date/time data through the next century ("Y2K Compliance"). Pursuant to the System Compliance Program, the Authority has completed its inventory and prioritization of its Systems; 111 of the Authority's 311 Systems have been designated "mission critical" which are deemed essential to the Authority's operations, including those Systems which track and report revenue, provide communications and assure public safety and security. The Authority is assessing each System for Y2K Compliance and developing recommended remedial action, if necessary, for each System (as of June 30, 1999, 98% of mission critical systems have been assessed). The Authority is implementing remedial action, if necessary, for each system and testing each system following implementation of any such action (as of June 30, 1999, 5% of mission critical systems have not yet been remediated). The Authority also is performing independent testing, verification and validation (the "TV&V Phase") of mission critical and certain high priority Systems to provide reassurance of these Systems' Y2K Compliance (as of June 30, 1999, 52% of mission critical systems have been independently tested or otherwise validated). The TV&V Phase is scheduled for completion by September 30, 1999. The last phase, contingency planning to prepare for potential failure scenarios, involves preparation of more than 100 contingency plans of which 75% have been drafted and is scheduled for completion by September 30, 1999.

The Authority has established a budget of approximately $5 million to achieve Y2K Compliance for

The Authority has established a budget of approximately $5 million to achieve Y2K Compliance for those Systems within the Authority's purview. As of June 30, 1999, approximately 98% of the Y2K Program budget was dedicated to specific program expenditures. This amount does not necessarily cover all costs potentially related to Y2K Compliance as ongoing purchases of systems and upgrades from general budget funds will also achieve Y2K Compliance for Systems which might otherwise require remediation. An example of this is the Authority's new Y2K Compliant financial accounting and reporting system which became operational in July 1998. Additional funding may be required to implement contingency plans.

As part of its Y2K Program, the Authority is conducting core process analyses to evaluate its core processes and the role and potential impact of the Authority's Systems and third parties in supporting those processes. To the extent that the Authority determines in such analyses that its Systems may be vulnerable to failures by its major suppliers, service providers and business partners to become Y2K Compliant, the Authority is taking appropriate actions to mitigate such vulnerabilities. Such actions include seeking alternate suppliers of the relevant product or service, stockpiling or implementing other contingency plans.

The Authority currently expects that all mission critical Systems will be Y2K Complaint by December 31, 1999. However, there can be no assurance that all such Systems will be fully Y2K Compliant by such date or that the Authority will not suffer material adverse consequences as a result of computer systems failures due to the failure to be Y2K Complaint. Furthermore, the failure of certain entities beyond the control of the Authority, such as the US Federal Aviation Authority (FAA), air carriers, utility providers and financial services providers, to address Y2K Compliance could have a material adverse impact on the operations or finances of the Authority.

Regarding Y2K Compliance, as of September 1, 1999, 100% of mission critical systems have been assessed; 2.7% of mission critical systems remain to be remediated; 81% of mission critical systems have been independently tested or otherwise validated; and 73% of the contingency plans have been drafted. As of September 1, 1999, 97% of the Y2K Program budget was dedicated to specific program expenditures.

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PROPERTIES AND PERFORMANCE

Gross Revenues, Authority-wide	$330.8 million
Net Income	$ 47.5 million
Logan International Airport, East Boston Total Passengers	26.5 million
Domestic	20.1 million
International	4.1 million
Total Pounds of Cargo and Mail	949.3 million
L.G. Hanscom Field, Bedford Total Operations	188,000
Tobin Memorial Bridge Total Vehicle Crossings	23.5 million
The Waterfront - Port Industry Facilities Moran Terminal - Charlestown Automobile Processing	76,077
Mystic Pier - Charlestown Salt (short tons)	30,485
Conley Terminal - South Boston Container Volume	83,526*
Army Base, South Boston Cement Handled (short tons)	183,500
Waterfront Properties Fish Pier, South Boston Fish Processed, pounds	23.3 million
Fish Landed, pounds	3.5 million
Black Falcon Cruise Terminal, South Boston Total Cruise Passengers (Cruise season-1999)	126,840

*includes "Over the Road" volumes

World Trade Center Boston, South Boston
Exhibition and conference space at Commonwealth Pier leased to private developers.

Constitution Plaza, Charlestown
Multi-purpose office and retail space at Hoosac Pier leased to private developers.

Multi-purpose office and retail space at Hoosac Pier leased to private developers.

East Boston Shipyard, East Boston
Leased to private entity for ship repair and marine industrial opportunity.

Equal Opportunity for All
In support of the basic principles of the Massachusetts Executive Orders, and in compliance with state and federal laws on affirmative action, Massport is committed to a program of effective affirmative action through institutionalized procedures that ensure equal opportunity in personnel practices, daily operations and business transactions.

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